

THE LEONARD LETTER

January 30, 2006

QUOTE OF THE WEEK

"The moment the idea is admitted into society that property is not as sacred as the law of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence."

-- John Adams

(1735-1826) Founding Father, 2nd U.S. President

UNDER THE DOME

*****Highways Are Not Houses*****

I commend Assembly Republican Leader Kevin McCarthy for introducing a bill this week that suggests the pay-as-you-go approach to infrastructure funding that I have been advocating for years. The proposal calls for a percentage of the general fund to be set aside, provided that Prop. 98's education commitments are met. This could generate \$35 billion over ten years. That is a much wiser idea than issuing bonds. (I estimate that \$50 billion worth of bonds would cost \$90 billion over 30 years.) Not only would we save money by this pay-as-you-go approach, it also makes common sense. We have a huge list of infrastructure needs. We do not have the capacity to build them all at once. We simply do not have the construction crews, engineers, and government oversight staff to do as much as we would like, all at the same time. This reality begs the question: if we are going to have stagger bond issuances anyway, why not simply stagger the projects to reflect money we actually have in the bank? That way we avoid debt service. We would also be able to live a principle that we espoused during the Davis recall: if there is unexpected revenue, spend it on one-time projects.

A counter-argument I have heard from Senate Republican sources is that paying for highways is just like a family buying a house. The analogy goes like this: it is nearly impossible for the average family to save up enough money in cash to buy a home, so they take out a mortgage and spread the cost of that home over 30 years with the interest paid being the cost of making such an important investment. But highways are not houses, and the Assembly Republicans are not suggesting we wait until we have all the cash in the bank before we break ground on a freeway. They are saying, rightly so, that we can begin a few projects with the excess revenues from this year, and then continue working on them with any additional excess funds in future years as well as a regular commitment of a percentage of the general fund.

*****"Daddy" Legislature Tells Union What's Good For Them*****

From the Blog 1/25/2006

The Sacramento Bee reports that a contract approved by a state employee union has been dropped because the majority party leadership in the legislature said they would not approve the

deal. The problem is that the members of the union had the audacity to agree to a provision that would have allowed their members to opt out of the PERS retirement system.

Unions were created to protect individual workers from management who would otherwise take advantage of them. Now the legislature is saying that a union is not good enough to protect the interests of its members. Oh, by the way, this is a union of public sector lawyers that the legislature is dismissing. One would think that this particular union would be savvy enough to negotiate a contract that is a good deal for its members. Go figure.

The ultimate irony of this is that the union that negotiated this contract may well end up with a worse deal because of the interference of the legislature. Why do we have unions when we have a legislature that always knows best?

AROUND THE STATE

*****Lessons from the LA Times*****

In a recent LA Times article (see <http://www.latimes.com/news/local/la-me-senate25jan25,0,1043921.story?coll=1>) about Richard Mountjoy's announced candidacy against U.S. Senator Dianne Feinstein, reporter Michael Finnegan wrote, "Mountjoy's preparations for the senate race have set off jitters among some Republican strategists who fear that his conservative stands on abortion, immigration and other issues could harm the party's image." A Republican staffer asked the reporter to justify the statement since Mountjoy's positions are consistent with the Republican Party platform; the reporter responded that he would not attribute the quote and that he have to go and read the platform himself.

This demonstrates several political realities in California. First, if you are a Republican who wants to see your words in the LA Times, just say something bad about another Republican. You can even do it anonymously. Second, if any Democrat strategist has jitters about either Steve Westly's or Phil Angelides' "radical" views, could you read about them in the LA Times? Do Democrats really not speak ill of each other, or does the Times just not print such comments, either anonymously or with attribution? Third, reporters should ask any so-called 'strategist' of either party who offers anonymous quotes a few questions: 1) have you won any races lately, and 2) who pays you?

*****Will Billionaires Sell Their Stock Every Year?*****

From the Blog 1/24/2006

The LAO reported earlier this month that revenues came in more than \$2 billion above what was expected from July to the end of the year, especially from the Personal Income Tax program. Because of this the Analyst warned that the source of the new revenues is volatile.

Dan Weintraub of the Sacramento Bee pegged the revised total at more than \$5 billion above expectations, again from things like capital gains and other sources of income tax revenue. (See <http://www.sacbee.com/content/opinion/story/14109719p-14939307c.html>)

Why are these revenues volatile? Here is an example. CNBC reported that the two founders of Google cashed in more than \$1.5 billion in Google stock last year. California's top capital gains

tax is 9.3%, and for those who have taxable income of more than \$1 million, tack on 1% for Mental Health Services Tax. Let us assume that the Google founders have a near zero "base" because they started the company in a garage. For the sake of argument, let us assume their base is .3%. Therefore they might owe 10% of \$1.5 billion in state income taxes from the stock sales. That comes to \$150 million in taxes. This is from just two people out of California's 37 million. If we decide to commit that \$150 million to ongoing expenditures, we are essentially banking on the Google founders selling \$1.5 billion worth of stock next year, the year after and so on.

It is too early to tell how much of the unexpected revenues from last year are from capital gains, but regardless, because they are coming primarily from the Personal Income Tax program, we should not count on them next year. This is the catastrophic mistake Gray Davis made in his second budget, and the reason why we have had a structural deficit ever since.

*****Taco Trash Tax*****

According to new reports, the Oakland City Council is considering a proposal to tax fast food restaurants and convenience stores that are located near schools to help defray the cost of picking up the litter left by the young people who frequent the establishments. Oakland would be the first city in the nation to enact such a law. Councilmembers argue that the tax is necessary because the businesses make profits off the students' patronage. The Oakland fee would range from \$230 to \$3,815 per year, depending on the size of the business, and be targeted at those businesses near high schools and junior high schools. The city would use the estimated \$237,000 a year from the tax to hire crews to clean up the litter. Councilman Larry Reid, who represents East Oakland, was quoted in the newspaper as saying, "You can't control the customers who have no sense of cleanliness. They just throw their trash in the streets. Someone needs to be held accountable." Here's a novel idea: hold the litterers accountable. If we know that the students are doing the littering and we know where and what time of day it happens, issue citations. I suspect that after the student litterers have to pick up trash during community service time and pay fines of their own, they will develop a sense of cleanliness.

TAX TIPS

*****Does the Left Hand Even Know the Right Hand?*****

You have heard me before emphasize the difference between filing your taxes and paying your taxes. Doing either one without the other will cause you a problem. The theory behind electronic filing and paying of taxes is that it makes life easier, both for the taxpayer and the government. I hope that someday that theory proves accurate, but a recent problem brought to my attention by a taxpayer tells me that we are some time away from that realization. This taxpayer has been filing and paying his sales tax electronically by his own volition for some time. Recent legislation (AB 139) requires all holders of sales and use tax permits whose average monthly tax payment are \$10,000 or more to pay their sales and use taxes by electronic funds transfer (EFT). This taxpayer was automatically flagged for the new mandatory program. The glitch is that the new program only requires people to PAY their tax using EFT; it has not yet been designed to allow them to FILE electronically. With my intervention, the Board was able to make an exception for

this taxpayer and staff is currently trying to identify why the glitch exists and how to fix it. In the meantime, if you find yourself in this Catch-22, let me know.

MISCELLANY

*****A Good Read*****

Just over ten years ago a new magazine began publishing that has had a dramatic effect on the level of policy and social discussion in this country. Now a summary of that effect is available in one place: "The Weekly Standard A Reader: 1995-2005." It does not beg to read cover-to-cover, but can be opened to any page and appreciated one essay at a time. The essays reprinted in this book mostly are not political, although there are a smattering of thoughts about presidential campaigns and the Middle East. More interesting, actually, are the observations about sports, theater, literature and the personalities of our time from Pope John Paul II to Ben Hogan. These essays are examples of excellent writing, wit and wisdom, and they offer worthy, poignant observations about the world in which we live.

BOE AND LEGISLATIVE DATES

January 31, 2006 --- Legislative deadline for bills introduced in 2005 to pass their first house or be dead for the Session.

January 31-February 1, 2006 --- BOE meets in Sacramento.

February 13, 2006 --- Abraham Lincoln's birthday holiday.

February 13, 2006 --- First day Declaration of Candidacy and Nominations papers can be turned in for candidates running in the June primary election.

February 20, 2006 --- Presidents' Day/George Washington's birthday holiday.

February 23, 2006 --- Last day to turn in petitions in-lieu of the filing fee for the June 2006 primary election.

February 24, 2006 --- Last day for bills to be introduced.

March 7-9, 2006 --- BOE meets in Culver City.

April 6, 2006 --- Legislature begins spring recess upon adjournment.

NOTABLE DATES/ HISTORY

January 31, 1865 --- The 13th Amendment banning slavery was passed by the U.S. House with unanimous Republican support and intense Democrat opposition. Note: the opposition

Democrats were all from Northern and Western states as Southern states had no representation in Congress during this time.

January 31, 1961 --- Ham the chimp blasted into outer space for a 16-minute rocket ride, paving the way for the U.S.'s manned space flight three months later.

February 1, 1862 --- Julia Howe published "Battle Hymn of the Republic."

February 1, 1965 --- Martin Luther King, Jr. and 700 demonstrators were arrested in Selma, AL.

February 2, 1848 --- The first shipload of Chinese arrived in San Francisco.

February 2, 1942 --- The Los Angeles Times urged security measures against Japanese-Americans.

February 2, 1964 --- GI Joe debuted as a popular American boy's toy.

February 3, 1913 --- The 16th Amendment, establishing federal income tax, was ratified.

February 3, 1973 --- President Nixon signed the Endangered Species Act into law.

February 3, 1987 --- The San Diego Yacht Club celebrated the return of America's Cup.

February 4, 1997 --- OJ Simpson was found liable in the murders of Ron Goldman and Nicole Simpson.

February 5, 1887 --- Snow fell on San Francisco.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

HOW TO CONTACT ME

Bill Leonard, Member
State Board of Equalization, Second District
Email: bill.leonard@boe.ca.gov

Northern California Office:

400 Capitol Mall, Suite 2340
Sacramento, CA 95814
Telephone: (916) 445-2181
Fax: (916) 327-4003

Southern California Office:
4295 E. Jurupa Ave., Ste. 204
Ontario, CA 91761-1428
Telephone: (909) 937-6106
Fax: (909) 937-7044